

CITY OF NEWELL

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2007

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CITY OF NEWELL

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dick Christiansen	Mayor	January 2010
Mark Puhrmann	Council Member	January 2008
Stan Henrich	Council Member	January 2008
Jim Martindale	Council Member	Resigned July 2006
Nathan Kier (Appointed)	Council Member	November 2007
Ethel Crowley	Council Member	January 2010
Shirley Henrich	Council Member	January 2010
Melinda Buchholz	City Clerk/Administrator	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Newell, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Newell, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Newell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves regarding the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Newell, Iowa, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2007, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for state and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2008, on our consideration of City of Newell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Newell's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hunglman, Putzier & Co.

February 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Newell provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2007 FINANCIAL HIGHLIGHTS

The cash basis net assets of the City's governmental activities increased by 16%, or approximately \$61,000, from fiscal year 2006 primarily because the City did not have a capital project to use the local option sales tax on this year.

The cash basis net assets of the City's business type activities decreased by 81%, or approximately \$23,000, due primarily to \$49,382 being spent on the digging of a new well during this fiscal year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include water, sewer, garbage, and golf course services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Local Options Sales Tax, (3) the Debt Service Fund, (4) the Capital Projects Fund, and (5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, golf course, garbage, and utility deposit operations. All of these funds, except for the utility deposit fund, are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	<u>Year Ended June 30,</u> <u>2007</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 26
Operating grants, contributions, and restricted interest	88
Capital grants, contributions, and restricted interest	105
General receipts:	
Property tax	236
Local option sales tax	85
Unrestricted investment earnings	11
Special assessments	17
Children's Center loan payments	10
Other general receipts	<u>7</u>
Total receipts	<u>585</u>
Disbursements:	
Public safety	129
Public works	75
Culture and recreation	80
Community and economic development	92
General government	80
Debt service	<u>64</u>
Total disbursements	<u>520</u>
Change in cash basis net assets before transfers	65
Transfers, net	<u>(4)</u>
Change in cash basis net assets	61
Cash basis net assets beginning of year	<u>374</u>
Cash basis net assets end of year	<u>\$435</u>

The cost of all governmental activities this year was \$520,000. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately financed for these activities was only \$301,000 because some of the cost was paid by those directly benefited from the programs (\$26,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$193,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$236,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)

	<u>Year Ended June 30,</u> <u>2007</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 110
Sewer	64
Garbage	66
Golf Course	67
Utility deposits	1
General receipts:	
Unrestricted investment earnings	<u>1</u>
Total receipts	<u>309</u>
Disbursements:	
Water	139
Sewer	43
Garbage	72
Golf Course	80
Utility deposit	<u>2</u>
Total disbursements	<u>336</u>
Change in cash balance net assets before transfers	(27)
Transfers, net	<u>4</u>
Change in cash basis net assets	(23)
Cash basis net assets beginning of year	<u>28</u>
Cash basis net assets end of year	<u>\$ 5</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Newell completed the year, its governmental funds reported a combined fund balance of \$435,769, an increase of \$61,465 from last year's total of \$374,304. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$15,268 from the prior year to \$85,596. This increase was primarily due to the Housing Fund real estate mortgage released of \$22,600 in January 2007.

The Special Revenue, Road Use Fund cash balance increased \$16,041 to \$51,459 primarily as a result of the street seal coating not getting finished until after June 30, 2007.

The Special Revenue, Local Option Sales Tax Fund, which accounts for monies received from the state for community betterment and property tax relief, cash balance increased by \$56,064 to \$162,022 due to no capital project being completed to which the money could be transferred.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS - (Continued)

The Debt Service Fund, which accounts for the payment of principal and interest on the City's long-term debt, cash balance decreased by \$17,517 to \$66,722 due to paying sanitary sewer bonds and street improvement bond.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, cash balance decreased by \$27,199 to \$68,763, due primarily to the digging of a new well.

The Sewer Fund, which accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system, cash balance increased by \$25,980 to \$(23,943) primarily because the debt service fund was used to pay the sanitary sewer bonds.

The Golf Course Fund, which accounts for the operation of the City-owned golf course, cash balance decreased by \$13,684 to \$(49,532) primarily because expenses were greater than receipts due to vehicle maintenance and increased costs of supplies.

The Garbage Fund, which accounts for the City's system of solid waste removal, cash balance decreased by \$6,500 to \$7,175.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2007, and resulted in an increase of \$121,996 in disbursements. This increase was necessary because of the extra costs of digging the new well.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$227,191 in debt, compared to \$316,537 last year.

<u>Outstanding Debt at Year-End</u>	
	<u>June 30, 2007</u>
General obligation notes	\$ 180,000
Special assessment notes	25,000
Drainage district assessments	8,651
Other County assessments	<u>13,540</u>
	<u>\$ 227,191</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$1.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Newell's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees charged for various City activities. The City's 2008 taxable valuation increased by \$415,216, or about 2.4% of the 2007 level.

The 2008 budget contains total receipts of \$1,720,887 and disbursements of \$1,692,417. This budget is slightly higher than the 2007 budget, which contained total receipts of \$1,455,555 and disbursements of \$1,580,522. The 2008 budget includes estimated added receipts and disbursements for a new fire truck, a new community center, water tower painting, and the beginning plans of a new sanitary sewer treatment plant.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES - (Continued)

The 2008 levy is \$13.4521 per \$1000 of taxable valuation, a decrease from \$13.5087 per \$1000 of taxable valuation for 2007.

These parameters were taken into account when adopting the budget for 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melinda Buchholz, City Clerk, PO Box 315, Newell, Iowa 50568.

CITY OF NEWELL
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit A

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities							
Public safety	\$ 128,728	\$ 4,869	\$ -	\$ -	\$ (123,859)	\$ -	\$ (123,859)
Public works	75,070	-	73,927	-	(1,143)	-	(1,143)
Health and social services	40	-	-	-	(40)	-	(40)
Culture and recreation	79,633	18,843	14,113	-	(46,677)	-	(46,677)
Community and economic development	92,493	2,379	-	104,842	14,728	-	14,728
General government	80,211	276	-	-	(79,935)	-	(79,935)
Debt service	63,563	-	-	-	(63,563)	-	(63,563)
Total governmental activities	519,738	26,367	88,040	104,842	(300,489)	-	(300,489)
Business type activities							
Water	138,999	110,423	-	-	-	(28,576)	(28,576)
Sewer	42,779	64,292	-	-	-	21,513	21,513
Garbage	72,388	65,838	-	-	-	(6,550)	(6,550)
Golf course	80,142	66,458	-	-	-	(13,684)	(13,684)
Utility deposits	2,550	1,100	-	-	-	(1,450)	(1,450)
Total business type activities	336,858	308,111	-	-	-	(28,747)	(28,747)
Total	\$ 856,596	\$ 334,478	\$ 88,040	\$ 104,842	(300,489)	(28,747)	(329,236)
General Receipts:							
Property tax levied for:							
General purposes					219,623	-	219,623
Debt service					16,692	-	16,692
Local option sales tax					84,885	-	84,885
Unrestricted interest on investments					10,572	1,377	11,949
Reimbursements					9,798	-	9,798
Special assessments					17,275	-	17,275
Miscellaneous					7,576	-	7,576
Transfers					(4,467)	4,467	-
Total general receipts and transfers					361,954	5,844	367,798

(Continued)

CITY OF NEWELL
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit A
(Continued)

	<u>Program Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Operating</u> <u>Grants,</u> <u>Contributions,</u> <u>Charges for</u> <u>Disbursements</u>	<u>Capital</u> <u>Grants,</u> <u>Contributions,</u> <u>and Restricted</u> <u>Interest</u>	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
Change in cash basis net assets			\$ 61,465	\$ (22,903)	\$ 38,562
Cash basis net assets beginning of year			374,304	28,397	402,701
Cash basis net assets end of year			<u>\$ 435,769</u>	<u>\$ 5,494</u>	<u>\$ 441,263</u>
Cash Basis Net Assets					
Restricted:					
Streets			\$ 51,459	\$ -	\$ 51,459
Debt service			66,722	-	66,722
Other purposes			228,770	-	228,770
Unrestricted			<u>88,818</u>	<u>5,494</u>	<u>94,312</u>
Total cash basis net assets			<u>\$ 435,769</u>	<u>\$ 5,494</u>	<u>\$ 441,263</u>

See notes to financial statements.

CITY OF NEWELL
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B

	<u>Special Revenue</u>					
	<u>General</u>	<u>Road Use</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Receipts:						
Property tax	\$ 162,507	\$ -	\$ -	\$ 16,221	\$ 50,932	\$ 229,660
Other city tax	4,704	-	84,885	471	1,480	91,540
Licenses and permits	2,454	-	-	-	-	2,454
Use of money and property	17,890	-	-	-	-	17,890
Intergovernmental	113,116	73,927	-	-	-	187,043
Charges for service	11,223	-	-	-	-	11,223
Special assessments	851	-	-	16,424	-	17,275
Miscellaneous	13,130	-	-	9,797	5,658	28,585
Total receipts	<u>325,875</u>	<u>73,927</u>	<u>84,885</u>	<u>42,913</u>	<u>58,070</u>	<u>585,670</u>
Disbursements:						
Operating:						
Public safety	128,728	-	-	-	-	128,728
Public works	9,075	65,995	-	-	-	75,070
Health and social services	40	-	-	-	-	40
Culture and recreation	78,853	-	-	-	780	79,633
Community and economic development	92,493	-	-	-	-	92,493
General government	80,211	-	-	-	-	80,211
Debt service	-	-	-	63,563	-	63,563
Total disbursements	<u>389,400</u>	<u>65,995</u>	<u>-</u>	<u>63,563</u>	<u>780</u>	<u>519,738</u>
Excess (deficiency) of receipts over disbursements	<u>(63,525)</u>	<u>7,932</u>	<u>84,885</u>	<u>(20,650)</u>	<u>57,290</u>	<u>65,932</u>
Other financing sources (uses):						
Operating transfers in	78,793	8,109	-	3,133	-	90,035
Operating transfers out	-	-	(28,821)	-	(65,681)	(94,502)
Total other financing sources (uses)	<u>78,793</u>	<u>8,109</u>	<u>(28,821)</u>	<u>3,133</u>	<u>(65,681)</u>	<u>(4,467)</u>
Net change in cash balances	15,268	16,041	56,064	(17,517)	(8,391)	61,465
Cash balances beginning of year	<u>70,328</u>	<u>35,418</u>	<u>105,958</u>	<u>84,239</u>	<u>78,361</u>	<u>374,304</u>
Cash balances end of year	<u>\$ 85,596</u>	<u>\$ 51,459</u>	<u>\$ 162,022</u>	<u>\$ 66,722</u>	<u>\$ 69,970</u>	<u>\$ 435,769</u>

(Continued)

CITY OF NEWELL
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B
(Continued)

	<u>Special Revenue</u>					
	<u>General</u>	<u>Road Use</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ -	\$ -	\$ -	\$ 66,722	\$ -	\$ 66,722
Unreserved:						
General	85,596	-	-	-	-	85,596
Special revenue	-	51,459	162,022	-	41,648	255,129
Debt service	-	-	-	-	3,222	3,222
Permanent	-	-	-	-	25,100	25,100
Total cash basis fund balances	<u>\$ 85,596</u>	<u>\$ 51,459</u>	<u>\$ 162,022</u>	<u>\$ 66,722</u>	<u>\$ 69,970</u>	<u>\$ 435,769</u>

See notes to financial statements.

CITY OF NEWELL
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

	<u>Major Funds</u>				<u>Nonmajor Fund</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Golf Course</u>	<u>Garbage</u>	<u>Utility Deposits</u>	<u>Total</u>
Operating Receipts:						
Charges for service	\$ 110,423	\$ 64,292	\$ 66,458	\$ 65,838	\$ -	\$307,011
Miscellaneous	-	-	-	-	1,100	1,100
Total operating receipts	110,423	64,292	66,458	65,838	1,100	308,111
Operating Disbursements:						
Business type activities	102,162	42,779	80,142	72,388	2,550	300,021
Excess (deficiency) of operating receipts over operating disbursements	8,261	21,513	(13,684)	(6,550)	(1,450)	8,090
Non-operating receipts (disbursements):						
Interest on investments	1,377	-	-	-	-	1,377
Debt service	(36,837)	-	-	-	-	(36,837)
Net non-operating receipts (disbursements)	(35,460)	-	-	-	-	(35,460)
Excess (deficiency) of receipts over disbursements	(27,199)	21,513	(13,684)	(6,550)	(1,450)	(27,370)
Other financing sources (uses)						
Operating transfers in	-	7,600	-	-	-	7,600
Operating transfers out	-	(3,133)	-	-	-	(3,133)
Total other financing sources (uses)	-	4,467	-	-	-	4,467
Net change in cash balances	(27,199)	25,980	(13,684)	(6,550)	(1,450)	(22,903)
Cash balances beginning of year	95,962	(49,925)	(35,848)	13,725	4,483	28,397
Cash balances end of year	<u>\$ 68,763</u>	<u>\$(23,945)</u>	<u>\$(49,532)</u>	<u>\$ 7,175</u>	<u>\$ 3,033</u>	<u>\$ 5,494</u>
Cash Basis Fund Balances						
Unreserved	68,763	(23,945)	(49,532)	7,175	3,033	5,494
Total cash basis fund balances	<u>\$ 68,763</u>	<u>\$(23,945)</u>	<u>\$(49,532)</u>	<u>\$ 7,175</u>	<u>\$ 3,033</u>	<u>\$ 5,494</u>

See notes to financial statements.

CITY OF NEWELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Newell is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Newell has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: Newell Fire Board, Buena Vista County Solid Waste Commission, Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, and Buena Vista County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF NEWELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment and property tax relief.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's system of solid waste removal.

The Golf Course Fund accounts for the operation and maintenance of the City run golf course.

CITY OF NEWELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

City of Newell maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF NEWELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

3. NOTES AND ASSESSMENTS PAYABLE

Annual debt service requirements to maturity for general obligation and special assessment notes are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Special Assessment Notes</u>		<u>Drainage District Assessments</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 25,000	\$ 9,965	\$ 25,000	\$ 1,250	\$ 961	\$ 433
2009	25,000	8,805	-	-	961	383
2010	25,000	7,585	-	-	961	336
2011	30,000	6,330	-	-	961	288
2012	30,000	4,790	-	-	961	240
2013-2017	25,000	12,785	-	-	3,846	481
2018-2020	20,000	3,448	-	-	-	-
Total	<u>\$180,000</u>	<u>\$ 53,708</u>	<u>\$ 25,000</u>	<u>\$910,304</u>	<u>\$ 8,651</u>	<u>\$ 2,161</u>

Year Ending June 30,	<u>County Culvert Assessments</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,385	\$ -	\$ 54,346	\$ 11,648
2009	3,385	-	29,346	9,188
2010	3,385	-	29,346	7,921
2011	3,385	-	34,346	6,618
2012	-	-	30,961	5,030
2013-2017	-	-	28,846	13,266
2018-2020	-	-	20,000	3,448
Total	<u>\$13,540</u>	<u>\$ -</u>	<u>\$ 237,191</u>	<u>\$ 57,119</u>

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, was \$13,845, equal to the required contribution for the year.

CITY OF NEWELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 5,994</u>

This liability has been computed based on rates of pay at June 30, 2007.

6. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 55,572
	Local Option Sales Tax	<u>21,221</u>
	Park/Pool	78,793
Special Revenue:	Special Revenue	
Road Use	Employee Benefits	8,109
Debt Service	Proprietary:	
	Sewer	3,133
Proprietary:	Special Revenue:	
Sewer	Local Option Sales Tax	<u>7,600</u>
		<u>\$97,635</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

7. RISK MANAGEMENT

City of Newell is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF NEWELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

8. LANDFILL AGREEMENT

The City participates in an agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member counties and municipalities. Payments to that commission totaled \$44,032 during the year ended June 30, 2007.

The County has guaranteed closure and post-closure costs of the landfill as per Chapter 111.6(6) of the Iowa Code. The total costs have been estimated at \$138,225 and \$895,500, respectively, as of June 30, 2007. The landfill was subsequently closed due to E.P.A. regulations on September 30, 2007.

9. LOAN AGREEMENT

On July 1, 2004, City of Newell entered into a loan agreement with Newell Children's Center for the purpose of enabling the Children's Center to acquire a building to be used to provide child care services within the City. The principal amount of the loan was \$80,000 with \$5,000 principal payments due each June 1 through June 2019 with a final payment of \$10,000 due June 1, 2020, and interest payments due on December 1 and June 1 of each fiscal year. This loan is secured by a mortgage on the building. The balance of this loan as of June 30, 2007, is \$70,000.

10. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2007.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-07</u>	<u>Remaining Commitment As of 6-30-07</u>
Municipal well construction	\$79,960	\$25,137	\$54,823
Engineering for well construction	15,750	13,750	2,000
Preliminary engineering – sewer treatment plant	9,500	4,750	4,750

The remaining commitments on these projects will be financed with funds on hand.

11. ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEWELL
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 229,660	\$ -	\$ 229,660	\$ 229,141	\$ 229,141	\$ 519
Other city tax	91,540	-	91,540	70,307	70,307	21,233
Licenses and permits	2,454	-	2,454	3,240	3,240	(786)
Use of money and property	17,890	1,377	19,267	2,776	2,776	16,491
Intergovernmental	187,043	-	187,043	454,730	454,730	(267,687)
Charges for service	11,223	307,011	318,234	306,300	306,300	11,934
Special assessments	17,275	-	17,275	39,200	39,200	(21,925)
Miscellaneous	28,585	1,100	29,685	42,300	42,300	(12,615)
Total receipts	585,670	309,488	895,158	1,147,994	1,147,994	(252,836)
Disbursements:						
Public safety	128,728	-	128,728	292,357	292,357	163,629
Public works	75,070	-	75,070	92,800	92,800	17,730
Health and social services	40	-	40	1,500	1,500	1,460
Culture and recreation	79,633	-	79,633	89,668	89,668	10,035
Community and economic development	92,493	-	92,493	200,000	200,000	107,507
General government	80,211	-	80,211	84,690	84,690	4,479
Debt service	63,563	-	63,563	238,563	238,563	175,000
Business type activities	-	336,858	336,858	321,387	443,383	106,525
Total disbursements	519,738	336,858	856,596	1,320,965	1,442,961	586,365
Excess (deficiency) of receipts over disbursements	65,932	(27,370)	38,562	(172,971)	(294,967)	333,529
Other financing sources (uses), net	(4,467)	4,467	-	170,000	170,000	(170,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	61,465	(22,903)	38,562	(2,971)	(124,967)	163,529
Balances, beginning of year	374,304	28,397	402,701	329,604	329,604	73,097
Balances, end of year	\$ 435,769	\$ 5,494	\$ 441,263	\$ 326,633	\$ 204,637	\$ 236,626

See accompanying independent auditor's report.

CITY OF NEWELL
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$121,996. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF NEWELL
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Schedule 1

	Special Revenue			Capital	Permanent Funds		
	Employee	Library	Park/Pool	Projects	Library	Cemetery	Total
	Benefits						
Receipts:							
Property taxes	\$ 50,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,932
Other city tax	1,480	-	-	-	-	-	1,480
Miscellaneous	-	-	2,075	3,222	-	361	5,658
Total receipts	52,412	-	2,075	3,222	-	361	58,070
Disbursements:							
Culture and recreation	-	-	746	-	-	34	780
Excess of receipts over disbursements	52,412	-	1,329	3,222	-	327	57,290
Other financing uses:							
Transfers out	(63,681)	-	(2,000)	-	-	-	(65,681)
Net change in cash balances	(11,269)	-	(671)	3,222	-	327	(8,391)
Cash balances beginning of year	11,269	27,924	14,395	-	5,000	19,773	78,361
Cash balances end of year	\$ -	\$ 27,924	\$ 13,724	\$ 3,222	\$ 5,000	\$ 20,100	\$ 69,970
Cash Basis Fund Balances							
Unreserved:							
Special Revenue	\$ -	\$ 27,924	\$ 13,724	\$ -	\$ -	\$ -	\$ 41,648
Capital project fund	-	-	-	3,222	-	-	3,222
Permanent funds	-	-	-	-	5,000	20,100	25,100
Total cash basis fund balances	\$ -	\$ 27,924	\$ 13,724	\$ 3,222	\$ 5,000	\$ 20,100	\$ 69,970

See accompanying independent auditor's report.

CITY OF NEWELL
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation notes:									
Sewer improvement	May 1, 2002	4.40 - 5.10%	\$ 190,000	\$ 130,000	\$ -	\$ 20,000	\$ 110,000	\$ 6,265	\$ -
Newell Children's Center	July 1, 2004	4.35 - 7.75%	80,000	75,000	-	5,000	70,000	4,797	-
			<u>\$ 270,000</u>	<u>\$ 205,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 180,000</u>	<u>\$ 11,062</u>	<u>\$ -</u>
Revenue bond:									
Water	Mar. 1, 1997	5.25%	<u>\$ 285,000</u>	<u>\$ 35,000</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ -</u>	<u>\$ 1,838</u>	<u>\$ -</u>
Special Assessment:									
Street Improvement	Sept. 1, 1997	5.00%	<u>\$ 200,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 2,500</u>	<u>\$ -</u>
Drainage District Assessments	Sept. 1, 2005	5.00%	<u>\$ 9,612</u>	<u>\$ 9,612</u>	<u>\$ -</u>	<u>\$ 961</u>	<u>\$ 8,651</u>	<u>\$ 599</u>	<u>\$ -</u>
200th Ave. Culvert Assessment	May 10, 2006	0.00%	<u>\$ 16,925</u>	<u>\$ 16,925</u>	<u>\$ -</u>	<u>\$ 3,385</u>	<u>\$ 13,540</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF NEWELL
NOTE AND ASSESSMENTS MATURITIES
YEAR ENDED JUNE 30, 2007

Schedule 3

Year Ending June 30,	General Obligation Notes					Special Assessment						
	Sewer Improvement		Children's Center			Street Improvement		D.D. Assessments		Culvert Assessment		
	<u>Issued May 1, 2002</u>		<u>Issued July 1, 2004</u>			<u>Issued September 1, 1997</u>		<u>Issued September 1, 2005</u>		<u>Issued May 10, 2006</u>		
	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2008	4.60%	\$ 20,000	4.80%	\$ 5,000	\$ 25,000	5.00%	\$ 25,000	5.00%	\$ 961	0.00%	\$ 3,385	\$ 29,346
2009	4.80	20,000	5.20	5,000	25,000	-	-	5.00	961	0.00	3,385	4,346
2010	4.90	20,000	5.50	5,000	25,000	-	-	5.00	961	0.00	3,385	4,346
2011	5.10	25,000	5.80	5,000	30,000	-	-	5.00	961	0.00	3,385	4,346
2012	5.10	25,000	6.10	5,000	30,000	-	-	5.00	961	-	-	961
2013	-	-	6.35	5,000	5,000	-	-	5.00	961	-	-	961
2014	-	-	6.50	5,000	5,000	-	-	5.00	961	-	-	961
2015	-	-	6.70	5,000	5,000	-	-	5.00	962	-	-	962
2016	-	-	7.00	5,000	5,000	-	-	5.00	962	-	-	962
2017	-	-	7.25	5,000	5,000	-	-	-	-	-	-	-
2018	-	-	7.35	5,000	5,000	-	-	-	-	-	-	-
2019	-	-	7.55	5,000	5,000	-	-	-	-	-	-	-
2020	-	-	7.75	10,000	10,000	-	-	-	-	-	-	-
		<u>\$ 110,000</u>		<u>\$ 70,000</u>	<u>\$ 180,000</u>		<u>\$ 25,000</u>		<u>\$ 8,651</u>		<u>\$ 13,540</u>	<u>\$ 47,191</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Newell, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Newell, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 14, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Newell's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Newell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Newell's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Newell's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Newell's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings, we believe items I-A-07, I-B-07, I-C-07, I-D-07, and I-E-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Newell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Newell's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit City of Newell's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Newell, and other parties to whom City of Newell may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Newell during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelman, Putzler & Co.

February 14, 2008

CITY OF NEWELL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We are a small community and are limited to one office employee, the City Clerk. Total segregation of duties is improbable with limited staff. The Mayor or Mayor-Pro Tem co-signs all checks. The City Council approves all bills and reviews financial operations each month.

Conclusion - Response accepted.

- I-B-07 Financial Reporting - Reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - We will attempt to read accounting literature and attend local professional education courses in accounting.

Conclusion - Response accepted.

- I-C-07 Fire Department Funds - The fire department maintains separate records pertaining to its operation. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation".

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

CITY OF NEWELL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

SIGNIFICANT DEFICIENCIES (Continued):

I-C-07 Fire Department Funds - (Continued)

Response - The Mayor or City Council will suggest to the fire department that their funds should be included in the City's financial records and budget.

Conclusion - Response accepted.

I-D-07 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - Utility billings, collections, and delinquent accounts will be reconciled each billing period and will be reviewed by the Council.

Conclusion - Response accepted.

I-E-07 Golf Course Receipts - Because of the large volume of cash transactions in connection with the golf course, it is very difficult to determine the accuracy of the income.

Recommendation - The City should review this situation and closely monitor the activity at the golf course to determine that approved procedures are being followed and that adequate subsidiary ledgers are maintained.

Response - The golf course does use receipt books, which the City Clerk checks and gets duplicated deposit slips with detailed information. Green fee payers and members sign in when they play.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions - We noted no business transactions between the City and City officials or employees.

II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF NEWELL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-07 Deposits and Investments - No instances of non-compliance with the deposit and investment policy were noted.

II-H-07 Excess Balances - The following funds have balances at June 30, 2007, which are in excess of one year's expenditures:

Special Revenue - Local Option Sales Tax
 - Library Expendable Trust
 - Park/Pool

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - The City will be using the excess of local option sales tax for capital projects such as street paving and painting the water tower this summer. The library keeps their expendable trust in specific accounts for specific improvements, equipment, or supplies. The park/pool trust will be spent on mowing of the newly acquired tree park and on new pool bathhouse concrete flooring.

Conclusion - Response accepted.

II-I-07 Financial Condition - The Enterprise Sewer and Enterprise Golf Course Funds had deficit balances of \$23,945 and \$49,532, respectively, at June 30, 2007.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - Both the sewer rates and golf course rates will be increased April 1, 2008. The golf course fund may be moved to the general fund in the future.

Conclusion - Response accepted.

II-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The City has been getting a copy of the back of cancelled checks from the bank since August 1, 2007.

Conclusion - Response accepted.

CITY OF NEWELL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-K-07 City Code of Ordinances - The City has not compiled the City ordinances within the past five years.

Recommendation - Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a city shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys". The City should compile the City ordinances as required.

Response - The City will be updating the City Ordinances starting in May 2008 until July 2008.

Conclusion - Response accepted.